

<b>Committee:</b>	<b>Date:</b>
Community and Children's Services Committee	19 September 2013
<b>Subject:</b> Internal Audit Update	<b>Public</b>
<b>Report of:</b> Director of Community and Children's Services	<b>For Information</b>
<b>Summary</b>	
<p>This report is to update members on work recently undertaken by the Internal Audit division relating to the Department of Community and Children's Services.</p> <p>A recent audit on financial management focused upon the following areas:</p> <ul style="list-style-type: none"> <li>• Examined the adequacy of controls in respect of the documentation and dissemination of procedures covering all key financial processes</li> <li>• Reviewed arrangements for the monitoring and control of budgets</li> <li>• Evaluated the adequacy of income collection procedures including recording, collection, banking and monitoring processes</li> <li>• Examined procedures in place for the raising of purchase orders and the reconciliation, authorisation and payment of invoices</li> <li>• Evaluated the efficiency of debt management procedures</li> <li>• Determined the extent and effectiveness of communication between department officers and Chamberlains including the capacity of the finance team to discharge its duties effectively</li> </ul> <p>A 'Green' Substantial Assurance level was provided as a result of the review summarising that there is a sound control environment with risks being reasonably managed. Any deficiencies identified were not cause for major concern. Ten green priority and one amber priority recommendations were made and agreed as a result of the audit. The amber recommendation relates to the creation of purchase orders prior to the receipt of invoices. Reminders to officers have been provided and arrangements made to reinforce this requirement on a regular basis.</p> <p>All of the recommendations have been agreed; two of which have already been implemented with the remainder scheduled to be completed between October and November 2013. Progress will be monitored at quarterly Departmental Leadership Team meetings and a formal follow-up of the recommendations completed by internal audit within 6-12 months.</p> <p>Members are asked to:</p> <ul style="list-style-type: none"> <li>• Note the report.</li> <li>• Note the action already taken and planned to address the control weaknesses identified by the review.</li> </ul>	

## Main Report

### Current Position

1. The key conclusions of the Financial Management Audit were as follows:
  - Overall budget monitoring processes are considered to operate effectively, with adequate support provided by the Chamberlain's Financial Services Division (FSD) to ensure that budgets are well controlled. Good practice was noted in the form of a clear service level protocol between the Department and the FSD in respect of the range of services provided; it was identified that there would be benefit in communicating this to all budget holders within the Department.
  - Testing of key income streams within the scope of the review indicated that arrangements in place for the billing and collection of income are adequate.
  - Procurement and creditor payment processes have undergone a significant amount of change during the course of audit fieldwork due to the introduction of the City of London Procurement Service (CLPS) and the centralised accounts payable function; as a consequence substantive testing was not undertaken in respect of retrospective local payment processes. The new arrangements will however be examined by Internal Audit as part a separate review.
  - An examination of the use of purchase orders did however highlight a large number of occasions totalling approximately £1.1 million, where orders were raised retrospectively following receipt of an invoice for payment. This is of particular concern given the impact this has on the budgetary reporting process and links with commitment accounting. An amber priority recommendation was made in relation to this issue, which has been agreed and will be fully implemented by October 2013. Internal Audit acknowledged that there may be occasions where it may not be appropriate to raise an order in advance, general improvement is required in this area in light of the move towards a 'no PO, no pay' policy.
  - Overall the Department's approach to debt management is considered to be appropriate though it was established that formal policies for the treatment of debts have not been established consistently across the various divisions. Whilst limited substantive testing was undertaken in respect of individual debt cases, as a separate audit of debt management is planned for 2013/14, the broad processes were found to be adequate.
2. Ten green and one amber priority recommendations were made as a result of the audit. The amber recommendation relates to the creation of purchase orders prior to the receipt of invoices. Reminders to officers have been provided and arrangements made to reinforce this requirement on a regular basis.

3. All of the recommendations have been agreed; two of which have already been implemented with the remainder scheduled to be completed between October and November 2013. Progress will be monitored at quarterly Departmental Leadership Team meetings and a formal follow-up of the recommendations completed by internal audit within 6-12 months.

### **Implications**

4. Recommendations in the report will be implemented and progress monitored at quarterly Departmental Leadership Team meetings.

### **Consultees**

5. The Chamberlain has been consulted and their comments are incorporated within the report.

### **Conclusion**

6. The Department is continuing to work closely with the Internal Audit Team to strengthen financial control. Financial management is sound and the implementation of audit recommendations is being progressed.
7. All recommendations raised have been accepted and will be subject to a formal follow-up by Internal Audit within the next 6-12 months. Progress of the implementation of the amber priority recommendation will be reported to the Audit and Risk Management Committee on a quarterly basis as part of Internal Audit's monitoring procedures.

### **Background Papers:**

Audit report – Financial Management

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